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NEW ESTIMATES SHOW BUSH BUDGET ALREADY RAIDING SOCIAL SECURITY AND MEDICARE SURPLUSES

New estimates by the Joint Committee on Taxation of the centerpiece of President Bush's tax cut indicate that the Bush budget plan will raid the Social Security and Medicare trust funds. The estimates indicate that the cost of the Bush tax cut will likely be at least $1.7 trillion. Including associated interest costs and the necessary enactment of alternative minimum tax reform – made all the more necessary by the Bush plan – would raise the total cost to at least $2.5 trillion over 10 years. This higher than expected cost leaves no room even for the modest increase in spending proposed by the President.

While the Administration and Congressional Budget Office are projecting a $5.6 trillion surplus over the next 10 years, the Bush Administration acknowledges more than half of the surplus is attributable to the Social Security and Medicare Hospital Insurance (HI) trust funds. Assuming we protect both of these untouchable trust funds, the true available projected surplus for the next decade totals $2.5 trillion.

Using the new Joint Committee on Taxation estimates, the cost of the Bush tax cut uses up the entire non-Social Security, non-Medicare trust fund surplus. If the Bush tax cut is enacted, the $200 billion cost of his proposed spending increases – not to mention any increases he has not proposed but that prove to be necessary to meet high priority national needs – could only be funded by dipping into the Social Security or Medicare HI trust funds.

Real Surplus Equals $2.5 Trillion

- The Administration projects that surpluses will total $5.6 trillion in fiscal years 2002 through 2011.

- The Administration estimates that $2.6 trillion of that amount is generated by the Social Security trust funds and $500 billion is generated by the Medicare HI trust funds. Overwhelming bipartisan majorities in the House and Senate have voted to wall off those trust fund surpluses to ensure that they are not used for anything other than Social Security and Medicare and paying down the debt.

- Thus, the surplus for 2002 through 2011 that is available to pay for tax cuts or spending increases is projected to total $2.5 trillion.

The Bush Tax Plan Would Eventually Cost $2.5 Trillion

$1.6 Trillion Tax Cut Costs At Least $1.7 Trillion

- The Bush Administration estimates that the President's proposed tax cuts will cost $1.6 trillion over the next 10 years.

- But new estimates by the Joint Committee on Taxation (JCT) show that, as implemented in legislation (H.R. 3) reported by the House Ways and Means Committee, two components of the Bush proposal – a new 10 percent tax bracket and reductions in the rates for the existing brackets – will cost $126 billion more than the Administration estimated.

    - These additional costs reflect both an acceleration of the implementation of the 10 percent bracket and JCT's estimate that the proposed rate cuts will cost more than the Administration estimated even without such an acceleration.

    - Although accelerating the implementation of the 10 percent bracket is not reflected in his budget, President Bush has clearly advocated speeding up the tax cuts. In his February 27 address to Congress, he stated:

      "I want to work with you to give our economy an important jump-start by making tax relief retroactive."

- Simply adding JCT's estimate of these two elements of the Bush proposal to the Administration's estimate of the rest of the President's plan (which almost certainly understates the cost the JCT will eventually estimate for the rest of the plan) results in a loss of revenues totaling $1.746 trillion in 2002 through 2011.

Up To An Additional 15 Million Americans Hit By AMT Under Bush Plan

- The JCT estimated that the Bush proposals to reduce income tax rates would cause an additional 15 million people to fall under the Alternative Minimum Tax (AMT) by 2011. JCT estimated it will cost $292 billion to reform the AMT so that up to 36 million Americans who are being promised a tax cut by the Bush plan actually receive it. (JCT estimates that the number of taxpayers affected by the AMT will grow from fewer than 2 million this year to 21 million in 2011 even if there are no changes in current tax rates or other aspects of the income tax. The Bush tax cuts would further increase the number of taxpayers affected by the AMT by up to an estimated 15 million.)

- Just keeping the AMT from taking back a significant part of the tax cuts proposed by President Bush would increase the cost of the President's plan by almost $300 billion over 10 years, increasing the revenue loss from the plan to just over $2 trillion. (This does not include the cost of dealing with the increase in the number of taxpayers who will be affected by the AMT even if there are no change in tax rates or credits.)

- Although the Bush budget does not include the cost of addressing the AMT effects of the Bush tax cuts, Treasury Secretary O'Neill has acknowledged that the problem must be addressed. He told the Senate Finance Committee that:

  "I think we are going to eventually have to deal with the AMT."

- Including about $475 billion in additional interest costs stemming from the estimated revenue loss (because the money is going for tax cuts instead of reducing the debt as much as the baseline projections assume) raises the total cost of the Bush tax plan to $2.5 trillion over 10 years.

Any Increase in Spending Requires Dipping Into Social Security or Medicare Surpluses

- Since the full cost of the President's proposed tax cut with AMT reform and associated interest costs is at least $2.5 trillion over 10 years (and is likely to be more when JCT finishes estimating the proposal) and the non-Social Security, non-Medicare HI surplus is $2.5 trillion over the same period, it is obvious that any increase in spending will require dipping into the Social Security or Medicare HI trust fund surpluses.

- The President has proposed a net increase in spending totaling about $200 billion over the next decade (including $153 billion for prescription drugs and Medicare reform and $30 billion for discretionary programs). Enacting just those increases would require using $200 billion of the Social Security or Medicare HI trust fund surpluses.

- Other spending increases that are likely to occur but are not reflected in the President's budget – for instance, increases to pay for national missile defense and other defense initiatives, to maintain the current level of support for struggling farmers, to provide an adequate prescription drug benefit in Medicare, and to help deal with the long-term debt problems stemming from the retirement of the baby-boom population – would also have to come out of the Social Security or Medicare trust fund surpluses if the Bush tax plan is enacted.